



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 12, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **CHILDREN ARE OUR FUTURE FISCAL REVIEW - A GROUP HOME
FOSTER CARE CONTRACTOR**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Children Are Our Future (CAOF or Agency) from January 1, to December 31, 2009. CAOF is licensed to operate eight group homes (GH), each with a resident capacity of six children. CAOF is located in the Fifth Supervisorial District.

DCFS and the Probation Department (Probation) contract with CAOF to care for foster children placed in the Agency's homes. DCFS paid CAOF \$5,891 a month per child, based on a rate determined by the California Department of Social Services. During calendar year 2009, the Agency received \$3,165,933 in GH foster care funds.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable CAOF to begin taking corrective action, we discussed the findings and recommendations from our review with Agency management on May 17, 2010.

Summary of Findings

We identified \$3,338 in unallowable and unsupported/inadequately supported costs. CAOF has repaid the \$3,338. In addition, DCFS and the Agency need to work together to resolve some potential overpayments.

On October 30, 2008, CAOF filed for bankruptcy. At the time of filing, CAOF had approximately \$1.36 million in outstanding liabilities. The Agency is in the process of reducing its debt through the bankruptcy court, and will have to begin repaying its debt

once the amounts are settled. When CAOOF completes the bankruptcy process, DCFS should require the Agency to submit a plan demonstrating how they will repay their debts without using current period foster care funds. DCFS also needs to monitor the Agency closely to ensure the repayment does not adversely affect the quality of its program services.

In addition, CAOOF needs to ensure it has contracts for all independent contractors, and strengthens its controls over its payroll/personnel procedures and bank reconciliations.

The findings noted in this report are significant and CAOOF needs to provide DCFS a corrective action plan to address the recommendations.

Review of Report

We discussed our report with CAOOF management and DCFS on January 12, 2011. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code Sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist DCFS in managing its contractual relationships. Consequently, this report will be forwarded to DCFS in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

We thank CAOOF management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

Attachments

c: William T Fujioka, Chief Executive Officer
Jackie Contreras, Ph.D. Interim Director, DCFS
Donald H. Blevins, Chief Probation Officer
Michael Linquata, Executive Director, CAOOF Residential Care
Board of Directors, CAOOF Residential Care
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Children Are Our Future
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$1,525 in unallowable costs and \$1,813 in unsupported/inadequately supported costs. In addition, DCFS and CAO of need to work together to resolve some potential overpayments. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

CAOF Residential Care is required to operate its group homes (GH) in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified \$1,525 in unallowable expenditures:

- \$1,376 in interest and penalties; consisting of \$508 in credit card finance charges and penalties, \$389 in late fees for insurance and registration services, \$280 in interest on a home equity line of credit, a \$174 parking citation and a \$25 non-sufficient funds (NSF) fee. Circular A-122 Sections 16 and 23 indicate that interest and penalties are unallowable costs.
- \$97 for alcoholic beverage purchases. Circular A-122 Section 2 states the cost of alcoholic beverages is unallowable.
- \$52 for cable television services that did not benefit the GH. The cable television services were provided to a location that was not owned or used by the GH program. A-C Handbook Section C.1.5 states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program are allowable.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts, or other supporting documents, and that unsupported expenditures will be disallowed upon audit.

We identified \$1,813 in credit card charges that were either unsupported, or inadequately supported. The Agency provided credit card statements, but no itemized receipts, or the receipts provided were inadequate to substantiate that the expenditures were GH-related.

Recommendations

1. **DCFS management resolve the \$3,338 (\$1,525 + \$1,813) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.**

CAOF management:

2. **Ensure that foster care monies are used for allowable expenditures to carry out the purpose and activities of the Agency.**
3. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

Potential DCFS Overpayments

DCFS' records show some potential overpayments made to the Agency. DCFS and CAOF should work together to resolve the potential overpayments, and DCFS should collect any verified amounts. CAOF management should also ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

4. **DCFS work with CAOF to resolve the potential overpayments and collect any verified overpayments.**
5. **CAOF management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that CAOF management takes action to address each of the contract compliance and internal control recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Bankruptcy

On October 30, 2008, the Agency filed for bankruptcy. At the time of filing, CAOF had approximately \$1.36 million in outstanding liabilities. The Agency is in the process of reducing that amount through the bankruptcy court, and will have to begin repaying its debt once the amounts are settled.

DCFS should require CAOF to submit a plan describing how they plan to repay their debts, without using current period foster care funds, while maintaining a high quality of program services. DCFS also needs to closely monitor the Agency to ensure the repayment of its debts does not adversely affect the quality of program services.

Recommendations

6. **DCFS require CAOF to submit a plan describing how they plan to repay their debts, without using current period foster care funds, while maintaining a high quality of program services.**
7. **DCFS closely monitor the Agency to ensure the repayment of its debts does not adversely affect the quality of program services.**

Independent Contractors

A-C Handbook Section A.3.2 states that agencies should have contracts, time and attendance records, billing rates, purchase orders and invoices, or other supporting documentation detailing the nature of services for independent contractors.

We reviewed five contractor payments and noted that CAOF did not have contracts for any of the contractors. The Agency needs to establish contracts with all independent contractors to ensure services are provided at the agreed price.

Recommendation

8. **CAOF management establish contracts, that include billing rates and services to be provided, with all independent contractors to ensure services are provided at the agreed price.**

Payroll/Personnel Controls

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary/pay rates. In addition, A-C Handbook Section B.3.1 states that time cards or time reports must be signed by the employees and their supervisors to certify the accuracy of the reported time.

We reviewed ten employee personnel and salary records and noted the following:

- Two (20%) personnel files did not include the employees' current salary/pay rates.
- One (10%) time card was not signed by the supervisor.

CAOF needs to ensure the current salary/pay rates are consistently documented and updated in the employees' personnel files, and that all time cards are signed by the employee's supervisor to certify the accuracy of the reported time.

Recommendations**CAOF management:**

9. **Ensure employees' salary/pay rates are consistently documented and updated in the employees' personnel files.**
10. **Ensure the time cards are signed by the employee's supervisor to certify the accuracy of the reported time.**

Bank Reconciliations

A-C Handbook Section B.1.4 requires bank reconciliations to be prepared within 30 days of the bank statement date, and reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer.

We reviewed the monthly bank reconciliations for 2009, and noted that they were not signed and dated by the preparer or the reviewer. The Agency needs to ensure that reconciliations are signed and dated by both the preparer and reviewer to ensure accuracy and timeliness of the accounting records and bank statements.

Recommendation

11. **CAOF management ensure bank statement reconciliations are signed and dated by both the preparer and reviewer.**



ANTONIA JIMÉNEZ
Acting Director

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

425 Shatto Place, Los Angeles, California 90020
(213) 351-5602

February 15, 2011

Michael Linquata, Executive Director
Children Are Our Future
9110 Independence Ave
Chatsworth, CA 91311

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

Dear Mr. Linquata:

**AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON CHILDREN ARE OUR FUTURE - A
GROUP HOME FOSTER CARE CONTRACTOR**

We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of January 1, through December 31, 2009. The FCAP fully addresses the audit report 11 recommendations (see Attachment III). In addition, the four recommendations directed to DCFS were fully addressed.

DCFS requires that Children Are Our Future, as agreed, submit a check drawn on non-foster care funds in the total amount of **\$3,338.00**. Please make your checks payable to **DCFS Cashier** and mail to:

Latisha Thompson, ASM III
Department of Children and Family Services
425 Shatto Place Rm. 304
Los Angeles, Ca. 90020

The Department requires that you identify the source of the funds from which payment will be made.

If you have any questions, please contact Ali Gomaa-Mersal of my staff at (213) 351-3209.

Sincerely,

A handwritten signature in cursive script that reads "Latisha Thompson".

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachments

- c: Mike McWatters, Chief Audit Division (via electronic mail only)
- Russell Lingo, Principal Accountant-Auditor (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

**FISCAL REVIEW OF
CHILDREN ARE OUR FUTURE - A GROUP HOME
FOSTER CARE CONTRACTOR**

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP, submitted by Children Are Our Future, status of each recommendation is summarized as follows:

- 11 Recommendations (1-11) were fully addressed.
- 4 Recommendations (1, 4, 6 & 7) directed to the Department were addressed.

Recommendation Status

1. ***DCFS management resolves the \$3,338 (\$1,525 + \$1,813) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.***

Agency Proposed FCAP: *I agree to the amount. Check for the full amount will be forwarded*

DCFS Response: DCFS accepts the agency's response. DCFS requires that Children Are Our Future, as agreed to submit a check drawn on non-foster care funds **in the amount of \$3,338.00**. The Department requires that you identify the source of the funds from which payments will be made. Please make your checks payable to **DCFS Cashier** and mail to:

Latisha Thompson, ASM III
Department of Children and Family Services
425 Shatto Place Rm. 304
Los Angeles, Ca. 90020

2. ***CAOF management ensures that foster care monies are used for allowable expenditures to carry out the purpose and activities of the Agency.***

Agency Proposed FCAP: *CAOF policies and procedures are governed by the County contract which is reviewed and signed by the Board President and Executive Officer CAOF ensures that all foster care monies will be used for allowable expenditures to carry out the purpose and activities of the Agency.*

CAOF operates with a Board Approved Budget that is monitored by the Finance Committee Chair and reported quarterly to the full Board. Every year CAOF is audited with circular A-133 audit.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

3. **CAOF management maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

Agency Proposed FCAP: *CAOF uses standard generally accepted accounting practices per A-133 and are reviewed during current audits and any recommended changes are incorporated in the New Year. These recommendations are presented to the full Board by the auditors and are approved along with the total audited. After the County audit, area of concerns was immediately addressed.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

4. **DCFS work with CAOF to resolve the overpayments and collect any verified overpayments.**

Agency Proposed FCAP: *CAOF has agreed to a Court approved plan for all repayments of overpayments to DCFS.*

DCFS Response: DCFS accepts the agency's response. Please submit a copy of the Court approved plan to Fiscal Monitoring and special Payment Unit.

5. **CAOF management ensures that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

Agency Proposed FCAP: *As of February 1, 2011 CAOF agrees to notify DCFS regarding any payment discrepancies and to follow procedures as related to repayments as stated in the current contract.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

6. ***DCFS require CAOF to submit a plan describing how they plan to repay their debts without using current period foster care funds while maintaining a high quality of current program services.***

Agency Proposed FCAP: *CAOF will repay all indebtedness by the Court approved plan as agreed upon in Court documents [these should have been sent to County Counsel] Dated 12/7/10, while maintaining our current level of program services.*

DCFS Response: DCFS accepts the agency's response. Please submit a copy of the Court approved plan to Fiscal Monitoring and special Payment Unit.

7. ***DCFS monitor the Agency closely to ensure the repayment plan does not adversely affect the quality of program services.***

Agency Proposed FCAP: *CAOF's approved 2011 budget covers all necessary expenditures needed for required staffing and program activities as required by County contract.*

DCFS Response: DCFS accepts the agency's response. Please submit a copy of CAOF's approved 2011 budget to Fiscal Monitoring and special Payment Unit.

8. ***CAOF Management ensures contracts are maintained for all independent contractors***

Agency Proposed FCAP: *Attached please find a sample copy of the contract used for all independent contractors.*

DCFS Response: DCFS accepts the agency's response. Please submit a copy of the contract used for all independent contractors to Fiscal Monitoring and special Payment Unit.

9. ***CAOF management ensures employees' salary/pay rates are consistently documented and updated in the employees' personnel files.***

Agency Proposed FCAP: *All salaries and rates of pay are kept on file in the payroll department and are continually updated as needed.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

- 10. CAOF management ensures the time cards are signed by the employee and a supervisor to certify the accuracy of the reported time.**

Agency Proposed FCAP: *CAOF's supervisors will sign off on all time cards for staff under their direct supervision. All time cards are reviewed by Executive Director and/or Deputy Director.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

- 11. CAOF management ensures bank statement reconciliations are signed and dated by both the preparer and reviewer.**

Agency Proposed FCAP: *All reconciliations will be prepared and signed by the Accounting Supervisor and reviewed and signed by the Executive Director and /or Deputy Director.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.